

Level 3 Award in Principles and Practice of Costing



International
Qualifications from EDI

Syllabus

Effective from 1 September 2010

INTRODUCTION

Education Development international (EDI) is a leading international awarding body that was formed through the merger of the London Chamber of Commerce and Industry Examinations Board (LCCI) and a leading online assessment provider GOAL. EDI now delivers LCCI International qualifications (LCCI IQ) through a network of over 5000 registered centres in more than 120 countries worldwide. Our range of business-related qualifications is trusted and valued by employers worldwide and recognised by universities and professional bodies.

Level 3 Award in Principles and Practice of Costing

Aims

The aims of the qualification are to develop candidates':

- understanding of the elements of cost classification and the difference between types of cost centres
- understanding of how cost accounting information can be used for the purposes of long and short-term planning, control and decision making within a business.
- ability to apply this understanding of planning and control, in a variety of business settings.

This qualification is accredited in the UK as EDI Level 3 Award in Principles and Practice of Costing (QCF) 501/1265/X. This qualification has a credit value of 8.

Target Audience and Candidate Progression

This qualification is suitable for candidates who wish to develop their general understanding of the use of cost accounting within an organisation in order to broaden their career opportunities and progression. Candidates will be expected to carry out calculations and to analyse data.

This qualification can be taken as a standalone qualification or as part of the Level 3 Specialised Diploma in Accounting and Finance and the Level 3 Specialised Diploma in Business Management and Accounting.

English requirements

There are no formal entry requirements for this qualification. However, candidates should have a minimum level of English equivalent to the LCCI Level 2 English for Business or JETSET 4 - (Council of Europe B1/Threshold) to meet the communication requirements for this qualification.

Structure of the qualification

The Level 3 Award in Principles and Practice of Costing consists of the following two units:

- 1 Level 3 Principles of Costing
- 2 Level 3 Providing Cost and Revenue Information

These two units cover the following key areas:

- 1 Cost terminology and classification
- 2 Costing methods and systems
- 3 Short term and long term decision making, planning and control
- 4 Budgeting and standard costing, and variances
- 5 Material and stock control
- 6 Cost-volume-profit (CVP) analysis

Guided Learning Hours

EDI recommends that 45 - 55 Guided Learning Hours (GLHs) will provide suitable course duration for an 'average' candidate at this level. This figure includes direct contact hours as well as other time when candidates' work is being supervised by teachers. Ultimately, however, it is the responsibility of training centres to determine the appropriate course duration based on their candidates' ability and level of existing knowledge. EDI experience indicates that the number of GLHs can vary significantly from one training centre to another.

ASSESSMENT

Assessment Objectives

The examination will assess the candidates' ability to:

- demonstrate detailed knowledge and understanding of the processing of cost accounting information within an organisation
- demonstrate understanding of long and short-term planning, control and decision making principles, techniques and processes
- apply this knowledge and understanding in a variety of business settings

Assessment Format

The qualification is assessed by a paper-based multiple-choice test, which consists of 30 questions covering all areas of the syllabus. The time allowed for the test is 75 minutes. This exam is available on-demand.

All multiple-choice tests must be carried out in accordance with the *Examination Guide for LCCI Centres* and the *Examination Regulations*, which will be sent to centres with the exam papers.

Coverage of key syllabus areas in the Examination

The multiple-choice test will cover the key syllabus areas as follows:

Syllabus areas		Approximate weighting of question allocation
1	Cost terminology and classification	5%
2	Costing methods and systems	15%
3	Short and long term decision making, planning & control	15%
4	Budgeting and standard costing, and variances	40%
5	Material and stock control	15%
6	Cost-volume-profit (CVP) analysis	10%

Answer Format

For each of the 30 multiple-choice questions candidates must mark A, B, C or D on the Candidate Answer Sheet, using a HB pencil. Only one answer must be marked for each question and the answer circle must be completely shaded.

Mark Allocation

The multiple-choice test is marked objectively with each question equally carrying one mark for a correct answer, with a total of 30 marks to be gained. EDI rigorously edits all multiple-choice items and test papers to ensure their quality and consistency.

Certification

Successful candidates will achieve the Level 3 Award in Principles and Practice of Costing based on the marks and grades below:

Pass 18 – 23 marks
Merit 24 - 27 marks
Distinction 28 > marks

Centres will receive certificates within a maximum of 6 weeks of the receipt of the OMR answer sheets at EDI.

Recommended Reading List and Support Materials

Reading List

Title	Authors(s)	Publisher	ISBN Code
Cost Accounting An Essential Guide	Russell, Patel & Wilkinson-Riddle	Pearson Ed	978 027365 167 3
Cost and Management Accounting – an introduction for students	Alan Pizzey	Paul Chapman	1 85396 049 7

Support Material

A Sample Paper and answers are available on the qualification page of the website, www.lcci.org.uk.

How to offer this qualification

To offer this qualification you must be an LCCI IQ registered examination centre. To gain Centre approval please contact Customer Support on 08700 818008 between the hours of 08.30 to 17.00 (GMT) Monday to Friday, or via email on centresupport@ediplc.com.

Alternatively you may contact your Regional LCCI Office or coordinating Authority.

Level 3 Principles of Costing

Learning Outcome	Assessment Criteria:	Indicative content:
<i>The learner will:</i>	<i>The learner can:</i>	
1 Demonstrate an understanding of the role of costing within the organisation.	1.1 Explain the purpose of internal reporting and providing accurate information to management in terms of decision making, planning and control.	<ul style="list-style-type: none"> ▪ <i>Use information to prepare budgets; monitor costs; variance reports; draws conclusions from the analysis.</i> ▪ <i>Identify different types of internal reports</i>
	1.2 Explain the relationship between the various costing and accounting systems within an organisation.	<ul style="list-style-type: none"> ▪ <i>Financial Accounting</i> ▪ <i>Cost Accounting</i> ▪ <i>Management Accounting</i>
	1.3 Identify the Responsibility centres, Cost centres, Profit centres and Investment centres within an organisation.	
	1.4 Explain the characteristics of different types of cost classifications and their use in costing.	<i>Classification of costs by:</i> <ul style="list-style-type: none"> ▪ <i>Element; Function; Nature.</i> ▪ <i>Material; Labour; Expense</i> ▪ <i>Direct and Indirect</i>
2 Advise on the most appropriate costing methods to use within an organisation.	2.1 Identify the most appropriate methods of stock control and valuation	<i>Two bin; Perpetual Inventory; Just-in-Time FIFO; LIFO; AVCO</i>
	2.2 Identify costs and the correct classification <ul style="list-style-type: none"> ▪ Fixed ▪ Variable ▪ Semi-variable ▪ Stepped 	
	2.3 Identify the differences between marginal and absorption costing.	<i>Identify and reconcile methods of costing in relation to:</i> <ul style="list-style-type: none"> ▪ <i>Unit costs</i> ▪ <i>Stock valuation</i> ▪ <i>Reported profits</i>
	2.4 Identify the bases of allocating and apportioning indirect costs to cost centres <ul style="list-style-type: none"> ▪ Direct ▪ Step down methods (repeated distribution) 	

	<p>2.5 Identify the bases used for absorption, and the reasons for their use</p> <ul style="list-style-type: none"> ▪ Machine hours ▪ Labour hours 	<i>Calculate and apply predetermined absorption rates</i>
	<p>2.6 Identify the most appropriate costing system</p> <ul style="list-style-type: none"> ▪ Job ▪ Batch ▪ Unit ▪ Process ▪ Service 	
	<p>2.7 Recognise stock in its various stages</p> <ul style="list-style-type: none"> ▪ Raw materials ▪ Part finished goods (work in progress) ▪ Finished goods 	
3 Understand the principles of using costing as a decision making tool.	3.1 Explain the effect of changing activity levels on unit costs.	
	3.2 Explain the principles of discounted cash flow	
	<p>3.3 Identify the considerations affecting short-term decision</p> <ul style="list-style-type: none"> ▪ Relevant costs ▪ Break-even analysis ▪ Margin of safety ▪ Target profit ▪ Profit-Volume analysis ▪ Limiting factors 	
	<p>3.4 Identify the considerations affecting long-term decision-making using</p> <ul style="list-style-type: none"> ▪ Payback ▪ Discounted cash flow 	

Learning Outcome	Assessment Criteria:	Indicative content:
<i>The learner will:</i>	<i>The learner can:</i>	
<p>1 Record and analyse information relating to costs.</p>	<p>1.1 Record and analyse costs in accordance with the organisation's costing procedures.</p>	<ul style="list-style-type: none"> ▪ <i>Identify and distinguish between sources of cost data</i> ▪ <i>Apply Cost-Profit-Volume analysis</i> ▪ <i>Explain and make calculations</i> ▪ <i>Explain and prepare budgets</i> ▪ <i>Prepare and process accounts</i>
	<p>2.1 Analyse cost information for materials, labour and expenses.</p>	<p><i>Calculate:</i></p> <ul style="list-style-type: none"> ▪ <i>Stock control levels</i> ▪ <i>Reorder quantity levels</i> ▪ <i>Economic order quantities (EOQ)</i> ▪ <i>Stock valuation using net realisable values</i> ▪ <i>Direct labour remuneration (e.g. time, piecework or bonus systems)</i> ▪ <i>Semi-variable expenses using the high/low method</i> <p><i>Prepare stock ledger records using: FIFO, LIFO, AVCO</i></p> <p><i>Distinguish between:</i></p> <ul style="list-style-type: none"> ▪ <i>Capital/Revenue expenditure,</i> ▪ <i>Direct/Indirect expenses</i> ▪ <i>Fixed/Variable expenses.</i>

2	Apportion costs according to organisational requirements.	2.1 Attribute overhead costs to production and service cost centres in accordance with agreed bases of allocation and apportionment.	
		2.2 Calculate overhead absorption rates in accordance with agreed bases of absorption.	
		2.3 Make adjustments for under and over recovered overhead costs in accordance with established procedures.	
		2.4 Review methods of allocation, apportionment and absorption at regular intervals and implement agreed changes to methods.	
		2.5 Communicate with relevant staff to resolve any queries in overhead cost data.	
3	Correctly identify any significant deviations and report these to management.	3.1 Compare budget costs with actual costs and note any variances.	<p><i>Calculate variances e.g.</i></p> <ul style="list-style-type: none"> ▪ <i>Total direct material analysed to price and usage</i> ▪ <i>Total direct labour analysed to rate and efficiency.</i> ▪ <i>Total fixed production overhead analysed, when using absorption costing, to expenditure and volume</i> <p><i>Calculate and flex budget costs to actual output and note the variance</i></p>
		3.2 Analyse variances accurately and prepare relevant reports for management.	
		3.3 Inform budget holders and other managers of any significant variances; making valid suggestions for remedial action.	
		3.4 Prepare estimates of future income and costs for decision making.	
		3.5 Prepare reports in an appropriate format and present these to management within the required timescales.	

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